

**Q&A at Financial Announcement for FYE Mar. 2014**

The principal Q&A given during financial announcement for FYE Mar. 2014 held on May 8, 2014 are presented as follows. Certain details have been expanded or modified to provide readers with a deeper understanding of Terumo Corporation's performance and activities.

**Q1** : In FY2014, what will drive the increase in profit for each company? How much of profit does Terumo expect to generate by the execution of announced roadmap toward to FY16?

**A1** : In FY2014, for Cardiac & Vascular Company, we project a slight decrease in profit due to Japan reimbursement price cut and increased R&D expenses. For Blood Management Company, we also expect a slight decline in profit due to the increased expenses to comply with a local regulation in Europe. For General Hospital Company, despite the impact of Japan reimbursement price cut, an increase in profit is projected as a whole since the plant productivity, which was a negative factor in FY2013, will be improved. We will aim for 20% at segment operating margin basis in FY2016.

**Q2** : In the mid-term plan, the company aimed for increase of 3% point in gross margin from FY2012 to FY2016. According to the roadmap just announced, operating margin is projected from a current 17% to 20% in FY2016. What level of additional gross margin improvement does the company expect to achieve the operating margin goal?

**A2** : In the light of FY2013 performance, we judged that it will be difficult to achieve the projected sales and profit in mid-term plan under such severe environment. On this understanding, we revisited and decided to target operating margin (before amortization) of 20% by FY2016. A difference from previously announced mid-term plan is that this time we will proceed with taking inventory of each business / region profitability to transform business portfolio. This will cause us to book some impairment loss in FY2013 and FY2014.

**Q3** : What kind of observations did TCVS receive from FDA? Including additional investment cost of 3 BJPY in FY2014, the accumulated amount of investment will be around 22 BJPY. What makes Terumo continue the large investment in TCVS

which annual sales is about 30 BJPY?

A3 : FDA informed TCVS that it needs to build up solid track record of newly established system execution and collect validation data of a certain manufacturing process. Meeting FDA's requirements is essential condition for the company which conducts a business in U.S. Even if the investment is required, we will firmly bring off the work.

Q4 : Regarding "taking inventory of each business / region profitability", please share us more specific of your consideration? Is any planned write-off of business asset incorporated into FY2014 guidance?

A4 : In FY2013, we impaired the assets of part of CV business and manufacturing facility for infusion solution of General Hospital business. Certain impairment of assets are incorporated in FY2014 plan, however, ones for which final decision is not made, are not incorporated.

Q5 : What are the challenges for Terumo to cope with environment changes occurred in last two years?

A5 : Through our previous matrix management structure, where accountability for business performance was not clear, we could not cope with global expansion of business. Therefore, we decided to shift to company-led management in April. In company-led management structure, dedicated plant and sales representative clearly belong to a company.

Q6 : What exactly occurred in "a delay of sales expansion for new General Hospital products"?

A6 : Since new IV catheter and infusion line are structurally complex to improve added value, production yield for these products went down. We have already been putting forth to efforts to lower manufacturing cost, such as facility improvement and production transfer to overseas factory. We expect these efforts to largely contribute to improve the profitability from FY2015. Regarding infusion solution for total parenteral nutrition, we faced risen manufacturing cost due to low production yield and Japan reimbursement price newly set lower than expected. Since profitability expected to generate with such facility declined, we impaired the asset of it.

Q7 : Would FY2014 guidance be possibly changed by new impairment of loss and others?

A7 : If any impairment loss and others are identified and finally decided, we will share the information in accordance with disclosure standards.

Q8 : Terumo underperformed its operating income guidance for the 4<sup>th</sup> consecutive year. What does Terumo view the probability of operating income guidance in FY2014?

A8 : We have awareness of the issue which we underachieved our guidance for the period. Of course, we should accomplish our guidance of operating income for FY14 through securing foothold.

Q9 : Is the company going to replace DES Nobori with new Ultimaster?

A9 : Being different from competitors products, Nobori has been used mainly for a lesion at ostium of left main coronary artery. On another front, we expect Ultimaster to be used for wide range of lesion type, targeting larger segment of DES market. Sales of Nobori in FY2013 was about 15 BJPY. In FY2014, we will launch Ultimaster in Europe and Asia Pacific countries in June. We expect Nobori sales to be replaced by Ultimaster, by 20-30% in FY2014 and around 50% in FY2015.

Q10 : Terumo estimates its cash flows will improve from FY2014 because the amount of CAPEX already hit a peak at FY2013. Does the company see the timing, when CAPEX and depreciation gets balanced out, as a next M&A opportunity?

A10 : We don't think a next M&A timing relies on cash flow improvement by balanced-out between CAPEX and depreciation. We will flexibly finance once we have an opportunity.